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UNITED TACTICAL SYSTEMS, LLC,

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

UNITED TACTICAL SYSTEMS, LLC, a
Delaware company,

Plaintiff,

v.

REAL ACTION PAINTBALL, INC., a
California corporation, and K.T. TRAN,
individually

Defendants.

CASE NO. 3:14-CV-04050-MEJ

**PLAINTIFF'S REPLY IN SUPPORT OF
PLAINTIFF'S MOTION FOR ORDER TO
SHOW CAUSE REGARDING
PRELIMINARY INJUNCTION**

Date: November 13, 2014
Time: 10:00 am
Ct rm: B - 15th Floor
Judge: Hon. Maria-Elena James

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INTRODUCTION

Plaintiff United Tactical Systems, LLC ("UTS") seeks a preliminary injunction similar to that already issued against Defendants Real Action Paintball, Inc. ("RAP") and K.T. Tran ("Tran") (collectively, "Defendants") enjoining Defendants from violating the rights of UTS's predecessor-in-interest Advanced Tactical Ordinance Systems, LLC ("ATO"), rights now owned by UTS. Although the injunction issued by the Indiana Court was recently vacated on jurisdictional grounds, the need to maintain the status quo that has existed in the irritant powder filled projectile market from the late 1990's through August 2012 remains unchanged. The need for a preliminary injunction ordering Defendants to adhere to the law is further demonstrated by Defendants' willful ignorance of the temporary restraining order as supported by the Indiana Court's explicit rejection of Defendants' selling of the Sun/APON projectiles after placing words or Defendants' logo on the shells of the quarantined projectiles. The Indiana Court made clear that it did not impose sanctions because it lacked "sufficient proof" that the projectiles Defendants modified were the quarantined projectiles or because it was of the mistaken impression that "PAVA" and/or "Less Lethal" somehow identified the Defendants as the source of the projectiles. Defendants prevented ATO from acquiring any such evidence by violating the TRO/PI's provisions allowing ATO to inspect and inventory the quarantined projectiles.

Defendants' Opposition merely repeats the same meritless arguments that the Indiana Court rejected, but adds a specious claim that UTS's motion relies on a flawed declaration and unauthenticated exhibits.¹ The Gibson declaration was not flawed, but even assuming *arguendo* it was, the supposed defect has been cured by the submission of another declaration by Gibson.

Further, as was the case in Indiana, Defendants constantly complain about the need for more discovery before any preliminary injunctive relief is granted. However, despite having had two years to conduct discovery, the Defendants have failed to uncover any evidence to support any of their claims or defenses – including their central assertion that APON manufactured

¹ Defendants never get more specific than to state "[t]he vast majority of UTS's other exhibits are also not authenticated." (Doc. 45, at 2.) Plaintiff authenticated every exhibit and provided more detail than the Defendants, who simply assert that an exhibit is accurate copy of a document. In any event, Defendants do not include any Objections to Evidence with their Opposition.

1 projectiles for PepperBall Technologies, Inc.² Further, Defendants not only continue to fail to
 2 inform this Court of exactly what discovery they need, but they fail to produce documents that are
 3 within their exclusive possession that are necessary to support their claimed harm.

4 The case law demonstrates that the rules of evidence are relaxed in the preliminary
 5 injunction context. In any event, UTS properly presented evidence through a Request for Judicial
 6 Notice and the Gibson and Piell Declarations. Precedent exists for the taking of judicial notice of
 7 another Court's findings of fact. Moreover, no dispute exists as to the evidentiary filings before
 8 the Indiana Court, which allows this Court to evaluate that evidence and give it the weight this
 9 Court deems appropriate. As for the Gibson declaration and the Defendants' claimed fatal flaw
 10 that it was executed before the sale of ATO's assets, the month "August" was typed in to the
 11 declaration as the declaration was expected to be filed in the month of August and Gibson only
 12 filled the actual date which was the 4th day of October. Out of an abundance of caution, Gibson
 13 has submitted a second declaration clarifying this and confirming his previous testimony, that the
 14 sale closed on August 8. (*See* Tab 106 ¶ 3.)

15 The Opposition fails to refute UTS's showing of a likelihood of success on the merits.
 16 Defendants incorrectly claim that PEPPERBALL is a generic trademark, ignoring the
 17 presumption of validity of a federal registration and presenting no evidence of genericide. The
 18 Opposition points to the use of the Pepperball Technologies, Inc. corporate name in an attempt to
 19 distinguish UTS's evidence of infringement under the *Sleekcraft* factors. This is a distinction
 20 without a difference, as Defendants used the PEPPERBALL trademark to create confusion as to
 21 the source of its products. Defendants do not refute UTS's evidence of trademark infringement.
 22 Defendants' nominative fair use argument fails, for each of the following independent reasons:
 23 (i) use of the PEPPERBALL mark is not necessary to identify Defendants' products,
 24 (ii) Defendants' took more of the PEPPERBALL mark than was necessary; and (iii) Defendants'
 25 used the PEPPERBALL mark in a manner likely to suggest sponsorship or endorsement of its

26 ² Defendants sought to block the dismissal of APON in October 2012 because they claimed to need
 27 discovery from APON. (*See* Tab 107, at 2-3.) Despite recognizing the need for discovery, in the two years
 28 since, Defendants never sent APON a subpoena or sent APON a subpoena without disclosing this fact to
 Plaintiff and did not like the response. The latter is a very real possibility because Plaintiff did not learn
 about at least one subpoena sent in the Indiana case until Defendants submitted their bill of costs.

1 product by ATO/UTS. Defendants' arguments against trademark counterfeiting ignores that they
2 used an exact replica of the PEPPERBALL mark and color scheme in connection with the
3 offering for sale of goods.

4 Defendants do not disprove the extensive evidence presented by UTS of Defendants' false
5 advertising in their misrepresentation of the nature of their projectiles under both federal and state
6 law. The Opposition's attempts to claim that UTS's trade dress is functional fails, as Defendants
7 do not show that (i) UTS's color scheme yields a utilitarian advantage; (ii) alternate designs are
8 unavailable; (iii) UTS's advertising touts the utilitarian advantages of the design; and (iv) that
9 UTS's design results from a comparatively simple or inexpensive method of manufacture.
10 Defendants' abandonment arguments fail because they cannot show nonuse for three years or an
11 intent to abandon.

12 Defendants' used the PEPPERBALL mark in their announcements and emails and also in
13 metatags and hidden text on their website. Defendants simply ignore UTS's evidence of the fame
14 of the PEPPERBALL mark when dealing with the trademark dilution claim. Defendants likewise
15 ignore UTS's evidence of the confidentiality of its trade secrets and of their misappropriation.

16 The Opposition does not explain why UTS does not suffer irreparable harm from all these
17 wrongs, which strike at the heart of UTS' products and reputation. The Opposition also does not
18 demonstrate why the public is not harmed by Defendants' misleading assertions as to the source
19 or sponsorship of their products, particularly given the inconsistent performance and quality
20 issues of Defendants' projectiles

21 The requested injunction is narrowly tailored to protect UTS's rights and simply requires
22 Defendants to maintain the status quo and do what the law already requires. Given Defendants'
23 illegal conduct, already recognized by the Indiana Court, no more than a \$10,000 bond is
24 warranted.

25 **STATEMENT OF FACTS**

26 UTS owns the Incontestable PEPPERBALL Trademark and is the Sole Manufacturer of
27 Authentic PepperBall® Projectiles. (See Tabs 3 & 106.) ATO owned and sold to UTS all of the
28 tangible and intangible property that PepperBall Technologies, Inc. ("PTI") had transferred to it

(See *id.* ¶¶ 3 & 9; Tab 108.) This transfer occurred by written assignment, UTS has recorded this assignment with the USPTO. (See Tab 109.)³ The Simpson loan documents demonstrate that, when ATO purchased the Simpson loans, it gained the right to sell and/or assign the intellectual property at issue to itself. (See Tab 7 ¶¶ 2, 6(a) & 6(d).) Additionally, all of the secured creditors who were entitled to notice received notice, and no secured creditor has complained that they did not receive notice.⁴ (See Tab 106, at 9.) Even if such a creditor had appeared, this would not result in a cancellation or voiding of the sale by which ATO/UTS acquired the intellectual property at issue, only that the secured creditor's lien would remain attached to the property. Nevertheless, Defendants re-assert in this Court an argument that has zero merit.⁵ Additionally, UTS cited the self-serving Declaration of former co-Defendant Sun (Tab 97) not for the legal beliefs of a non-lawyer set out in paragraph 13 but for the admission that Sun believed there were no restrictions on his use of PTI/ATO/UTS's trade secrets. (See Doc. 27, at 27 (citing Tab 97 ¶¶ 24, 26 & 29).)⁶ Finally, Defendants attempt to attack ATO's ownership of PTI's assets by vaguely claiming (without evidentiary support) that ATO acquired PTI's assets by shady means and for nefarious purposes. Contrary to Defendants' wild accusations, Gibson testified that he was contacted by Simpson (PTI's largest secured creditor) through Conrad Sun as PTI could not find investors or other buyers. (See Tab 6, at 60:4-61:9.) Accordingly, there is no "uncertainty surrounding ATO's acquisition of PTI's property."

³ A quick search of the USPTO's online database reveals the inaccuracy of Defendants' counsel's claim that "it is impossible to know what 'property' ATO owned at that time, or indeed whether it owned any property at all." (See Tabs 108 & 109; Defs.' Response, at 12.)

⁴ Although Defendants argue that the secured creditors were not notified, despite having had over two years to gather such evidence, they fail to identify a single creditor with liens against the property at issue who would be entitled to notice who did not receive notice.

⁵ Defendants' entire "null and void" argument is based on a non-lawyer Defendants' "understanding" as to what the law provides. (See Tab 97 ¶ 13.) Although Sun never discloses where he got his "understanding" of California law from, it was likely from his attorney at the time (Paul Overhauser) who abandoned the theory when pressed. This is not the first time Defendants' counsel has sought to mislead a Court via an ambiguous declaration. See *Novelty, Inc. v. Mountain View Marketing Inc.*, No. 1:07-CV-1229, 2010 WL 1490416, at *2 (S.D. Ind. Apr. 12, 2010).

⁶ Despite being a defendant in the Indiana action and a secured creditor, Sun never sought to vacate the sale or rescind the agreement between ATO and any of the secured creditors who received compensation from ATO in exchange for assigning their secured debt to ATO. This failure to act, and Sun's replacing Paul Overhauser as his counsel a week later, speaks volumes as to what Sun thought of the legal arguments Overhauser sought to advance via the Sun Declaration.

1 On August 8, 2014, UTS purchased the PepperBall[®] trademark and all tangible and
2 intangible assets of ATO. (See Tab 2 ¶ 4 & Tab 106 ¶ 3.) ATO's claims against Defendants for
3 their trademark infringement and other acts of unfair competition were included in the sale. (See
4 Tab 106 ¶18 & Tab 109.)

5 In the two month period before the sale to ATO, ATO's owners ensured a seamless
6 transition from PTI to ATO, which included retaining most employees, trainers, and suppliers.
7 (See Tab 8, at 77:20-78:9.) Since the foreclosure ATO operated PTI under the same "PepperBall"
8 trade name and provided the same quality service and product as PTI had provided. (See Tab 106
9 ¶ 19.) At no time has ATO or UTS concealed from the government or anyone else that there was
10 a change in management. (See Tabs 106 ¶ 19; 110 ¶ 9; 111 ¶ 9.) Immediately following the
11 acquisition of the PepperBall[®] assets by ATO and then UTS, the process of changing the
12 registration with the government was implemented. (See Tabs 110 ¶ 10 & 111 ¶ 9.)

13 With respect to the Defendants' infringement, Plaintiff seeks to ban Defendants from
14 selling all completely spherical irritant powder filled projectiles that are either: (1) all-red or half-
15 red/half-black; or (2) manufactured using Plaintiff's technology or based on Plaintiff's shell or
16 powder formula, recipe, or manufacturing equipment primarily for two reasons. First, Defendants
17 have claimed *all* of their irritant powder filled projectiles are made on the machinery and/or by
18 the manufacturer of projectiles for PepperBall Technologies, Inc. – which as already noted is
19 demonstrably false. (See Tabs 26-28, 36, 106 ¶ 20, 110 ¶ 7 & 111 ¶ 7.) Second, when the Indiana
20 Court amended the TRO *sua sponte* based on the misrepresentations advanced by the Defendants,
21 the Court made clear that projectiles obtained from Conrad Sun were not to be sold. Defendants
22 nevertheless decided to take those quarantined projectiles, add text describing the active
23 ingredient and class of product but not identifying the source, and resumed selling the projectiles
24 in direct violation of the Court's order. (Compare Tabs 47, at 2 & Tab 48, at 3-4 with Tab 67 &
25 Tab 106 ¶ 20.) Given Defendants' past conduct and professed inability to understand Court
26 orders, an injunction totally banning their sale of irritant powder filled projectiles would be
27 appropriate. Here, UTS seeks much less. Defendants' refusal to refrain from selling infringing
28 projectiles or projectiles specially manufactured to appear identical to UTS' projectiles or which

1 utilize stolen trade secrets is the choice they made. (*See* Doc. 27, at 35 ¶ (a).)

2 Finally, the Opposition contains numerous additional, easily verifiable, indisputable
3 factual misrepresentations that cast doubt on the veracity of Defendants and their counsel. First,
4 in an effort to claim a need to have the ability to use the PEPPERBALL mark, Defendants claim,
5 "Like most businesses, Real Action provides its customers with compatibility and comparative
6 information about its products, including projectiles." (Doc. 45, at 3 & Doc. 45-1 ¶ 7.) However,
7 a review of Defendants' website from before the preliminary injunction shows Defendant did not
8 provide compatibility information and did not use the term "PepperBall" to describe the
9 compatibility of its projectiles or launchers. (*See* Tabs 61, 111-113, 139.) Second, Defendants
10 falsely claim the need to use UTS's mark as they supposedly continue to sell genuine PepperBall®
11 products. (*See* Doc. 45, at 4 & Doc. 45-1 ¶ 9.) Defendants' own exhibits demonstrate that
12 Defendants no longer sell the HotShot® device, that the live refill cartridge has been discontinued
13 as well, and Defendants are eliminating their refill inventory. (*See* Defs.' Ex. 20-2 [Doc. 45-21]
14 (no mention of HotShot® device, only the refill cartridge); *see also* Tabs 114-115.) Further, not
15 only did Defendants' website *never* include "PepperBall" in the text of the HotShot® product
16 page, but Defendants blurred the PepperBall® logo that was on the device and used the HotShot®
17 mark without indicating it was a trademark or the mark's owner. (*See* Tabs 69-70, 114 & 116-
18 117.⁷)

19 Third, Defendants continue to repeat their unsupported claim that "[n]on-party PTI
20 obtained its projectiles from two suppliers – Perfect Circle, Inc. of Lake Forest, Illinois ("PC")
21 and APON, which is in Mexico." (Defs.' Opp. [Doc. 45], at 4.) The only competent evidence
22 regarding this issue was introduced by ATO and that evidence was that APON merely assembled
23 projectiles – by hand – using parts provided to it by PTI. (*See* Tabs 106 ¶ 14; 12 at 82:7-21; 18 at
24 113:12-17.) Fourth, contrary to Defendants' claim, Defendants never used UTS's mark to sell

25
26 ⁷ Defendants proffer two reasons for why "PepperBall" is not visible on the picture of the HotShot® device
27 on Defendants' website. Plaintiff's offer the photo which was edited by the Defendants which shows that
28 the PepperBall logo was blurred by the Defendants. (*See* Tab 118.) A comparison of the two shows that
the texture of the handle is visible in both photos, but "PepperBall" is blurred in the photo on Defendants'
website. Additionally, Defendants cropped the top of the photo to conceal that "HotShot" was trademarked
by PTI.

1 SWAT projectiles. (*Compare* Defs.' Opp., at 4 & Doc. 45-1 ¶ 10 with Tabs 61, 112-113 & 120.)
 2 Fifth, Defendants blatantly misrepresent that "Real Action Paintball has never used the term
 3 PEPPERBALL to sell projectiles that were not originally purchased from PTI SWAT, and has not
 4 used the term PEPPERBALL to sell any projectiles in 2012 or later." (*See* Doc. 45, at 4-5 & Doc.
 5 45-1 ¶ 10) UTS has provided numerous examples of Defendants using the term PEPPERBALL –
 6 with and without being followed by "Technologies, Inc" – and the Defendants have even attached
 7 one of these same exhibits to their opposition. (*See* Tabs 10, 26-28, 36 & Defs.' Ex. 19.) Sixth,
 8 Defendants' claim is demonstrably false that "[s]ince 2011, the only trademarks Real Action
 9 [Paintball] has used for its projectiles are LESS LETHAL LIVE AGENT ROUNDS and MAX
 10 PAYLOAD LIVE AGENT LESS LETHAL, which are sold in containers also bearing the mark
 11 RAP4." (*Compare* Doc. 45, at 5 & Doc. 45-1 ¶ 11 with Tabs 121-122 (showing no attempt to
 12 claim a trademark in either of the foregoing phrases but showing a claimed trademark in
 13 "Peppershot" being added in late 2013.) Seventh, ATO's counsel did not fly to California to serve
 14 either Defendant with the TRO in the Indiana action. (*Compare* Doc. 45, at 9 & Doc. 45-1 ¶ 12
 15 with Tab 123 and Piell Decl. ¶ 5 (process was served by a third party process server, counsel was
 16 in California on another case, and Defendants refused counsel entry into the premises thus
 17 preventing counsel from taking the ordered inventory and instead Defendants provided an
 18 inventory they generated outside of any inventory tracking system.)

19 Eighth, even if APON manufactured projectiles, APON manufactured the projectiles in
 20 Mexico, so Perfect Circle was the only domestic manufacturer of spherical irritant powder filled
 21 projectiles. (*Compare* Doc. 45, at 4 with Doc. 45, at 6 (showing inconsistency in Defendants'
 22 Response brief).) Ninth, Defendants did not add a "slogan" to their projectiles to comply with a
 23 TRO and that "slogan" has not appeared on "all irritant projectiles sold by Real Action [Paintball]
 24 since early 2013. (*Compare* Defs.' Opp. [Doc. 45], at 10 & 26; Tran Decl. [Doc. 45-1] ¶ 14 with
 25 Tab 124.) Putting aside the fact that a slogan is "a distinctive cry, phrase, or motto of any party,
 26 group, manufacturer, or person; catchword or catch phrase;" the text Defendants' printed on some
 27 of their projectile's shells merely identifies the active ingredient (PAVA) and class of product
 28 (less lethal). (*See* Tab 106, ¶ 21.) Further, Defendants removal of the Sun/APON projectiles from

1 quarantine in an attempt to create a new trade dress was explicitly prohibited by the TRO and
 2 rejected by the Court. (*See* Tabs 47, at 2 and Tab 48, at 3-4.) Still further, Defendants' current
 3 website most prominently features projectiles with no slogan printed on them. (*See* Tab 124.)

4 Tenth, Defendants attempt to create the impression that Conrad Sun created a new
 5 projectile and/or irritant powder formula and that what was what Defendants were selling. (*See*
 6 Doc. 45, at 7.) To the contrary, the new formula that Polansky developed for Sun was not
 7 delivered to Sun until after Sun had delivered the projectiles at issue to Defendants. (*Compare*
 8 Tab 125 (all of the invoices produced by Defendants for APON projectiles showing last delivery
 9 was 8/15/12) with Tab 126 (Polansky report issued 9/14/12) and Tab 127-128 (Polansky did not
 10 test the manufacturability of formula or know its efficacy). Eleventh, the Defendants falsely
 11 assert that "[t]he Accused Announcements Were on the Internet for Less than a Month." (Defs.'
 12 Opp., at 9.) UTS not only attached several of the "accused announcements" that are on the
 13 Internet even to this day, but ATO confronted Defendants about their failure to remove the
 14 "accused announcements" from Defendants' own website well after the TRO went into effect.
 15 (*See* Tab 36.) These demonstrable facts establish Defendants' willful disregard of the truth. (*See*
 16 Tabs 89 & 90, at 356:20-369:24 (especially 368:1-13).) Twelfth, the projectiles received from
 17 Defendants' counsel were packaged by RAP4 (as evidenced by the tape around the bubble wrap),
 18 were packaged consistent with how projectiles were shipped to customers, and leaked like every
 19 other shipment Plaintiff received directly or through a consumer transaction. (*See* Defs.' Opp., at
 20 5 & 11; Tab 16; & Tab 106 ¶¶ 12 & 15.)

21 Finally, with the exception of ATO's customer list Defendants received all of the
 22 discovery they were entitled to – including all e-mails and contact information for the customers
 23 who contacted ATO expressing confusion following Defendants' announcements.⁸ Although the

24
 25 ⁸ Unlike in Defendants' cited case (*Nordstrom, Inc. v. NoMoreRack Retail Grp., Inc.*, Case No. C12-1853-
 26 RSM (W.D. Wash. March 25, 2013)), UTS has presented evidence of actual confusion from known
 27 individuals who were/are ATO/UTS's customers, or Defendants' customers and suppliers. (*See* Tabs 10,
 28 29-33 & 54-55.) UTS also presented evidence of Defendants perpetuating the confusion when customers
 called, so Defendants' infringement is not limited to their online postings. (*See* Tab 10, at 2.) Further,
 Defendants misrepresent to this Court that ATO did not comply with a substantial number of discovery
 orders. (*See* Defs.' Opp., at 14 n. 6 & 19 n.7) ATO only refused to produce its complete customer list, but
 produced the identities of the customers who had contacted Plaintiff in writing to express confusion
 resulting from Defendants' announcement. ATO produced these customer's information in response to

magistrate judge ordered the customer list produced, the District Court refused Defendants' request to dismiss ATO's case or deny injunctive relief on all of ATO's claims in light of Defendants' counsel's history of willfully violating protective orders. (*See* Tab 129, at 43:12-44:19 (discussing events that occurred in *Novelty, Inc. v. Mountain View Marketing Inc.*, No. 1:07-CV-1229, 2010 WL 1490416 (S.D. Ind. Apr. 12, 2010)).)

ARGUMENT

I. THE RULES OF EVIDENCE ARE RELAXED AND DISCOVERY IS OFTEN LIMITED IN THE PRELIMINARY INJUNCTION CONTEXT.

Defendants' complaint that Plaintiff failed properly to authenticate its exhibits is without merit. "[I]n the preliminary injunction context, the Court is not strictly bound by all rules of evidence." *Ticketmaster L.L.C. v. RMG Technologies*, 507 F.Supp.2d 1096, 1102 n. 2 (C.D. Cal. 2007) (citing *Flynt Distributing Co., Inc. v. Harvey*, 734 F.2d 1389, 1394 (9th Cir. 1984)). "[D]istrict courts have the discretion 'to consider otherwise inadmissible evidence in ruling on the merits of an application for a preliminary injunction.'" *Rosen Entm't Sys., LP v. Icon Enters, Inc.*, 359 F.Supp.2d 902, 904 (C.D. Cal. 2005) (citations omitted).

Defendants' claim that they should be allowed additional discovery also lacks merit. Defendants' own precedent provides that "expedited discovery is not automatically granted merely because a party seeks a preliminary injunction." *American LegalNet, Inc. v. Davis*, 673 F.Supp.2d 1063, 1066 (C.D. Cal. 2009). Further, the expedited discovery needs to be "narrowly tailored to obtain information relevant to a preliminary injunction determination." *Id.* (quoting *Dimension Data N. Am. v. NetStar-I, Inc.*, 226 F.R.D. 528, 532 (E.D.N.C.2005)).

Finally, as the Court has recognized, there is an urgency to issuance of a preliminary injunction that should not be delayed by further discovery. (*See* Doc. 43 (denying Defendants' time to conduct discovery prior to a hearing on this motion).) Defendants have not provided this Court with any reason to change its original decision. Defendants can always later move to dissolve any injunction issued should they claim to discover facts that support such a motion

Defendants' baseless allegation that ATO had fabricated evidence of actual confusion. Despite being provided with the complete contact information for this subset of customers, Defendants were unable to find any evidence that ATO manufactured evidence of confusion.

1 **II. UTS APPROPRIATELY PRESENTED EVIDENCE BY ITS REQUEST FOR**
 2 **JUDICIAL NOTICE.**

3 The facts upon which the Indiana Court based its issuance of a temporary restraining order
 4 and preliminary injunction, including declarations and testimony from six days of evidentiary
 5 hearings, are presented to the Court here. The only documents UTS sought to have this Court take
 6 judicial notice of were filed with the Courts and/or the USPTO, for facts that "can be accurately
 7 and readily determined from sources whose accuracy cannot reasonably be questioned." (Fed. R.
 8 Evid. 201(b)(2).) All three cases cited by Defendants support UTS's use of judicial notice of facts,
 9 including that the Indiana Court made certain findings of fact. In Defendants' first case, the
 10 District Court was reversed for failing to give proper notice regarding the use of findings of fact
 11 from another case, but reaffirmed that findings of fact could be judicial noticed if the underlying
 12 facts were introduced in the second action. *See Wyatt v. Terhune*, 315 F.3d 1108, 1114 (9th Cir.
 13 2003) Defendants' other cases only provide "a court may not take judicial notice of a fact that is
 14 'subject to reasonable dispute.'" *Lee v. City of Los Angeles*, 250 F.3d 668, 689 (9th Cir. 2001);
 15 *Taylor v. Charter Medical Corp.*, 162 F.3d 827, 830 (5th Cir. 1998). Finally, not only do
 16 Defendants fail to explain what fact Plaintiff has asked this Court to take judicial notice of that is
 17 "subject to reasonable dispute," but it should be apparent from the over 100 exhibits to UTS's
 18 motion that UTS is not relying on judicial notice as a substitute to presenting evidence.

19 While the Seventh Circuit ultimately found that the Indiana Court lacked personal
 20 jurisdiction over the Defendants and ordered the preliminary injunction to be vacated (which
 21 occurred on August 28, 2014), the Indiana Court's findings of fact and reasoning are still
 22 persuasive authority on which this Court can rely. *See Rosenbloom v. Pyott*, 765 F.3d 1137, 1154
 23 n. 14 (9th Cir. 2014) ("decisions vacated for reasons unrelated to the merits may be considered for
 24 the persuasive of their reasoning.").

25 Contrary to Defendants' assertion, UTS is in no way claiming that this Court must rely on
 26 the Indiana Court's findings, but would note that Defendants fail to provide a reason for this Court
 27 to reinvent the wheel and witness for itself testimony from individuals the Indiana Court found to
 28 "lack credibility almost entirely." (Tab 1, at 3.) Even if the Court were disinclined to accept the

1 Indiana Court's findings of fact, UTS has properly presented to this Court the underlying evidence
 2 presented to the Indiana Court, a fact not capable of dispute. This Court can always weigh such
 3 evidence anew in ruling upon the instant motion.

4 **III. DEFENDANTS FAIL TO REFUTE UTS' SHOWING OF A LIKELIHOOD OF**
 5 **SUCCESS ON THE MERITS.**

6 **A. Defendants Have Failed To Refute UTS's Evidence Showing Not Only A**
 7 **Likelihood Of Success On Its Trademark Infringement Claim, But That**
 8 **Defendants Willfully Infringed.**

9 Plaintiff has demonstrated with competent evidence both elements of trademark
 10 infringement (*i.e.*, "(1) that [plaintiff] has a protectible ownership interest in the mark; and (2) that
 11 the defendant's use of the mark is likely to cause consumer confusion."). *SunEarth, Inc. v. Sun*
 12 *Earth Solar Power Co., Ltd.*, 846 F.Supp.2d 1063, 1073 (2012)(citations omitted). The first
 13 element has been demonstrated by the Gibson Declaration and written assignments recorded with
 14 the USPTO. (*See* Tabs 2 ¶ 4, 106 ¶ 3, 108-109.) All Defendants offer in response to this evidence
 15 is their conjecture and baseless assertions that the sale was suspicious. With respect to the second
 16 element of trademark infringement, Defendants' Opposition fails to address that: (1) the
 17 *Sleekcraft* factors, including the factor that an incontestable trademark is evidence of the mark's
 18 strength; and (2) likelihood of confusion will be presumed when there is an intent to mislead.⁹
 19 Instead, the Defendants ignore the fact that UTS's trademark was used in a manner calculated to
 20 confuse the public, and instead focus on defenses that are without merit.

21 **B. Defendants Defenses Are "Without Merit."**

- 22 1. Defendants' Used The PEPPERBALL Mark To Describe The Nature Of
 23 Their Products, Not Merely To Refer To The Corporate Name Of A
 24 Competitor.

25 Defendants' argument against the application of the *Sleekcraft* factors relies upon a
 26 distinction between PEPPERBALL as a mark and Pepperball Technologies, Inc. as a corporate
 27 name. Under this reasoning, a competitor could essentially advertise that it is selling the same
 28 Coca-Cola using the same formula made on the same equipment as Coca-Cola (despite the fact

⁹ UTS would also note that the statements from ATO/UTS's customers, and Defendants' customers and suppliers, are permissible hearsay because they are being introduced for their effect on the declarant. (*See* Fed. R. Evid. 803(1)-(3).)

1 that this was not true) without committing trademark infringement. This argument by the
2 Defendants is frivolous to the point of not needing to be further expounded upon.

3 2. Defendants' Argument That PEPPERBALL Was Not Used On Defendants'
4 Projectiles Is Irrelevant

5 The placing of the "PEPPERBALL" mark on Defendants' packaging or the projectiles
6 themselves is irrelevant to a trademark infringement claim. All that is required is that the
7 Defendants used the mark in a way likely to cause consumer confusion. Defendants' argument
8 also ignores a case previously cited by UTS that explicitly discusses metatag infringement and the
9 fact that use of another's trademark to attract a customer to one's store is actionable. *See*
10 *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1063-65
11 (9th Cir. 1999)). UTS has presented evidence that individuals searching for "PepperBall" will be
12 directed to Defendants' website. (*See* Tab 130.) Further, the mere act of using another's trademark
13 to draw the customer into the store is actionable, even if the customer realizes that the product
14 being advertised is not the product being sold. *See Dwyer Instruments, Inc. v. Sensocon, Inc.*, 873
15 F.Supp.2d 1015, at 1032-33 (N.D. Ind. 2012) (citing Seventh and Ninth Circuit precedent
16 regarding there being actionable infringement even if customers are not ultimately confused
17 (*Brookfield Comm'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1064 (9th Cir.1999)))).
18 Additionally, for a web based merchant such as these Defendants, their depiction of the product
19 on their website is the packaging. Finally, trademark infringement occurs when the source – not
20 the seller – of the product is misrepresented.

21 3. PEPPERBALL Is Not A Generic Trademark.

22 Defendants merely gloss over the fact that Federal Trademark Registrations carry a
23 presumption of validity and the registered owner's exclusive right to use in commerce. *SunEarth,*
24 *Inc. v. Sun Earth Solar Power Co., Ltd.*, 846 F.Supp.2d 1063, 1074 (2012) (citations omitted).
25 Defendants also ignore that UTS's PEPPERBALL mark is incontestable, which means that the
26 mark is conclusively presumed to be non-descriptive (*i.e.*, the mark is at least suggestive, if not
27 arbitrary or fanciful), or if the mark is descriptive that it has acquired secondary meaning without
28 further proof. *See KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 408 F.3d 596, 606

(9th Cir. 2005). While an incontestable mark can be challenged as having become generic, the burden is on Defendants to prove the mark has become generic and they have failed to present any such evidence.

Defendants cite no precedent for their arguments that: (1) the public's misspelling of a trademark renders it generic;¹⁰ (2) the public's or media's use of the trademark as occurred here renders it generic;¹¹ (3) one foreign manufacturer's use of the word "pepper balls" to describe their irritant powder filled projectile – in a nation where UTS does not have a trademark – makes Plaintiff's mark generic;¹² or (4) the manufacturer's use of the trademarked name of its product, followed by an accurate description of its product, in the manufacturer's training materials, makes the mark generic.¹³ Given that PTI was the dominant if not the sole supplier of irritant powder filled projectiles, it is likely that law enforcement was using, and together with the public, was referring to ATO/UTS's product when discussing the tool used to subdue the perpetrators. Accordingly, Defendants' genericness defense has no evidentiary basis and was determined by the Indiana Court to be "without merit." (*See* Tab 1, at 12.)

¹⁰ The fact is that (with one or two exceptions) all of the government documents cited by Defendants use the word "PepperBall" or "Pepper Ball." The capitalization of this term indicates that the author referred to a specific brand and not a class of product. The magistrate judge in the Indiana action ordered ATO's training materials to be produced on the trade dress issue of functionality in response to Sun's motion to compel. The magistrate judge rejected Defendants' argument that misspelling the PEPPERBALL mark was evidence of genericness.

¹¹ Despite having over two years to contact the authors of the articles Defendants rely on for evidence of generic use of "PepperBall" – something the Defendants could do without discovery being allowed by a Court – Defendants fail to present any evidence from the author of any of the 78 pages of articles and/or comments comprising Defendants' Exhibit 9 (Doc. 45-9) that they believed "pepperball" or "pepper ball" was the name of an entire class of products, as opposed to the name of ATO/UTS's product. This glaring deficiency in Defendants' argument was repeatedly pointed out in the Indiana action; therefore one can reasonably conclude that Defendants have either decided to rest on their conjecture and/or were unable to find any author who was willing to declare under oath that they were referring to a class of products.

¹² There is no evidence that Foray Security advertised in the United States, and as such UTS has no right or ability to prevent Foray Security from using the words "pepper balls." Further, Foray Security no longer exists, but Foray Security's successor, Premium Group represents itself as serving as an importer into South Africa. (*See* Tab 131.)

¹³ The frivolous nature of Defendants' argument is demonstrated by substituting "FN 303" for "PepperBall" in Plaintiff's training materials. The definition offered for "PepperBall" applies equally to the "FN 303," but no rational person would argue that substituting "FN 303" for PepperBall would make "FN 303" generic.

1 4. The Nominative Fair Use Doctrine Is Inapplicable.

2 Defendants used the PEPPERBALL mark to convey properties of their own products, not
 3 to refer to the products of UTS's predecessors in interest. The fact that Defendants deny this
 4 obvious fact and include only snippets of their infringing broadcast e-mails and web site postings
 5 should tell this Court all it needs to know about the merits of Defendants' defenses. Defendants'
 6 precedent is also inapplicable because that case involved the sale/brokering of authentic product.
 7 *See Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171 (2010) (brokers specializing in the
 8 sale of *authentic* Lexus automobiles could use Lexus trademark in domain name provided use did
 9 not suggest sponsorship of site by trademark owner). That said, Defendants fail to address the
 10 requirements of a nominative fair use defense because any discussion of the elements would have
 11 revealed the frivolous nature of Defendants' argument.

12 In order for the nominative use defense to apply, a defendant must demonstrate: (1) that
 13 its product was not reasonably identifiable without the plaintiff's mark; (2) that it used no more of
 14 the plaintiff's mark than was reasonably necessary; and (3) that it did not use the mark in a
 15 manner likely to suggest sponsorship or endorsement of its product by the plaintiff. *New Kids on*
 16 *the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992)

17 Taking the elements in order, Defendants cannot even meet the first element of the
 18 nominative use defense because they were capable of identifying their product without using
 19 UTS's mark. A review of Defendants' website prior to August 2012 demonstrates that they were
 20 capable of referring to their product (and indeed did refer to their product) without using the
 21 PEPPERBALL mark. (*See* Tabs 61, 113-114 & 120.) Further, Defendants even admitted they
 22 were capable of, and in fact did, sell their irritant powder filled projectiles without making
 23 reference to UTS's trademark. (*See* Tab 21, at 389:6-391:17.)

24 Regarding the second element, a review of Defendants' e-mails and posts demonstrates
 25 repeated use of UTS's trademark, including in Defendants' web page metatags and hidden text
 26 (*i.e.*, demonstrating that the use of the mark was designed to elevate Defendants' search ranking
 27 and not merely to describe or identify Defendants' product). The Ninth Circuit has made clear that
 28 in order for nominative use defense to apply, the mark cannot be used more than necessary.

1 *Toyota Motor Sales*, 610 F.3d at 1175-76. In the instant case, Defendants used UTS's mark
2 repeatedly in plain text, hidden text, and metatags. (See Tabs 10, 26-28, 36, 59-60, 88, 90.)

3 Finally, with respect to the third element, Defendants' false claim that their projectiles
4 were from the same manufacturer and same equipment that had produced for PTI was for the sole
5 purpose of claiming that PTI would approve of Defendants' projectiles. Given that the Defendants
6 fail to meet any of the three elements of a nominative fair use defense, UTS is likely to prevail.

7 **C. Defendants Cannot Deny Their Use Of A Counterfeit Mark In Connection**
8 **With The Offering For Sale And Distribution Of Their Products.**

9 Defendants used the PEPPERBALL mark, which is identical to UTS's registered
10 PEPPERBALL mark, so they used a "counterfeit mark" per 15 U.S.C. § 1127. Defendants used
11 this mark in their advertising, which is a use "in connection with the . . . offering for sale . . . of
12 goods." 15 U.S.C. § 1125(a)(1)(A). Defendants only response to Plaintiff's argument is to make
13 two frivolous claims.

14 The first frivolous defense (which Defendants also incorrectly assert as a defense to
15 trademark infringement and trademark dilution) is that PEPPERBALL had to be used "on the
16 goods," when no such requirement exists for any of UTS's claims. (See Defs.' Opp., at 17, 20, 27.)
17 This fact is confirmed by a review of the statutory section cited by Defendants (15 U.S.C. §
18 1116(d)(1)(B)) and Defendants' citation of *State of Idaho Potato Comm'n v. G&T Terminal*
19 *Packaging, Inc.*, 425 F.3d 708, 721 (9th Cir. 2005) (third element of counterfeiting is use of the
20 counterfeit mark "in connection with the sale, offering for sale, or distribution of goods.") The
21 specific section cited by Defendants shows that not only is there no requirement that the mark be
22 on the goods, but that counterfeiting occurs whenever a "counterfeit mark [is used] in connection
23 with the sale, *offering for sale*, or distribution of goods *or services*." 15 U.S.C. § 1116(d)(1)(A)
24 (emphasis added); *see also PepsiCo, Inc. v. California Security Cans*, 238 F.Supp.2d 1172, 1175-
25 76 (C.D. Cal. 2002) (reciting elements of counterfeiting, none of which require use of the mark
26 on the product).

27 The second frivolous claim is that Defendants did not use the PEPPERBALL mark, much
28

less use it in a way designed to confuse consumers regarding the "origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person." 15 U.S.C. § 1125(a)(1)(A). The claim is frivolous for the reasons stated in § III.B.4 *supra.*, but UTS would also note that "the inquiry into whether a mark is 'counterfeit' must be conducted 'from the standpoint of an average purchaser.'" *U.S. v. 10,510 Packaged Computer Towers, More or Less*, 152 F.Supp.2d 1189, 1198 (N.D. Cal. 2001).

D. Defendant Cannot Disprove The Evidence That Supports Each Element Of UTS's Deceptive Comparative Advertising Claim.

Defendants' claim that Plaintiff has failed to establish four of the five elements of its deceptive comparative advertising claim are without merit. With respect to the first element, the Defendants simply pretend that their announcements are not discussing Defendants' product. (*See* Tabs 26-28 & 36.) Even the snippet Defendants included in their Opposition undermines their argument that their announcement does not discuss Defendants' product as it states "[n]ow we manufacture *our Less Lethal Live Rounds*."¹⁴ (Defs.' Opp., at 20-21 (emphasis added).) Further, the only competent evidence regarding APON's role with PTI's projectiles has come from ATO/UTS, and that evidence shows APON merely assembled projectiles from parts supplied to it by PTI. (*See* Tabs 106 ¶ 20, 110 ¶ 7 & 111 ¶ 7.) Regarding the second and third elements, contrary to Defendants' assertion, the instant motion discussed the tendency to deceive and the materiality of the deception on pages 17-19 & 20 (respectively).¹⁵ Defendants' refusal to acknowledge UTS's discussion of the second element is understandable as Defendants cannot refute the presumption of confusion that arises from their intent to mislead. *See Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.*, 457 F.3d 1062, 1076 (9th Cir. 2006); *Southland Sod*

¹⁴ Contrary to Defendants argument, since Defendants call all of their irritant powder filled projectiles sold by RAP4 "Less Lethal Live Rounds," and claim that all of these rounds are made by PTI's former manufacturer, all of Defendants irritant powder filled projectiles are accused of infringing.

¹⁵ Defendant denies it claimed its projectiles were "superior." Although Defendants did not use the word "superior," they falsely claimed they had "improved the formula and process for making Less Lethal Live Rounds" (Tab 36), rounds which Defendants maintained had been made by PTI. (*See* Tab 26.) "Improved" in this context is synonymous with "superior." Defendants also claimed that RAP4 was marking its projectiles to "ensure [the customer that they] are receiving a high quality product," which implies that ATO/UTS's projectiles were not a high quality product. (*See* Tab 64.)

1 *Farms v. Stover Seed Co.*, 108 F.3d 1134, 1146 (9th Cir. 1997); *Fuddruckers, Inc. v. Doc's BR*
 2 *Others, Inc.*, 826 F.2d 837, 845-46 (9th Cir. 1987). Defendants' claim that UTS was not harmed
 3 ignores the fact that ATO assigned its claim to UTS, and Defendants have all but stated they plan
 4 to resume their deceptive conduct by fighting the preliminary injunction. Finally, UTS discussed
 5 the fifth element of this claim (damages and harm to goodwill) on pages 20-21 of its motion.
 6 Therefore, UTS has presented evidence sufficient to show a likelihood of success on its false
 7 advertising claim.

8 **E. Defendants Fail To Rebut UTS's Showing Of A Likelihood Of Success On Its**
 9 **False Advertising Claim And Unfair Competition Claims.**

10 Where trademark infringement is established, a violation of California's False Advertising
 11 Law and Unfair Competition Law has also been proven. See *Philip Morris USA Inc. v. Liu*, 489
 12 F. Supp. 2d 1119, 1123 (C.D. Cal. 2007); see also *Cleary v. News Corp.*, 30 F.3d 1255, 1262-63
 13 (9th Cir. 1994); *Cairns v. Franklin Mint Co.*, 24 F. Supp. 2d 1013, 1037 (C.D. Cal. 1998);
 14 *Mallard Creek Industries, Inc. v. Morgan*, 56 Cal.App.4th 426, 438, 65 Cal.Rptr.2d 461 (1997).
 15 The overwhelming and undisputed evidence in this case demonstrates that Defendants
 16 intentionally sought to deceive the consuming public regarding the source and quality of
 17 Defendants' projectiles. Not only did the Defendants' use Plaintiff's trademark repeatedly in their
 18 announcements and e-mails, but also in the metatags and hidden text. Tran, who was the driving
 19 force behind Defendant RAP4's marketing of the infringing projectiles, admitted that he chose the
 20 word "acquire" because it would cause confusion. (See Tab 53, at 937:14-942:7; see also Tabs 10,
 21 29-33 & 54-55 (demonstrating confusion).) Defendants' Opposition implicitly concedes
 22 Defendants' statement was false because "[t]he dictionary definition of "acquire" includes
 23 "control," and Real Action [Paintball]'s Exclusive Dealing Agreement gave it the right to
 24 purchase projectiles." (See Defs.' Opp., at 8.) The right/ability to purchase was not exclusive to
 25 the Defendants but rather required Defendants to purchase from APON, and did not give
 26 Defendants any control over APON.

27 Tran was also aware that his "clarification" announcement actually caused more confusion
 28 but chose not to correct that confusion. (See Tab 56, at 999:3-1000:3.) Further, although Tran was

1 aware that PTI's assets had been sold to ATO, Tran chose to promote PTI's foreclosure in an
 2 effort to give legitimacy to Defendants' claims that they had gained access to the source of
 3 PepperBall[®] projectiles. (*See* Tab 132.) Given the presumption that an infringer who set out to
 4 confuse the public succeeded¹⁶ and UTS's evidence from PTI's, ATO's and even Defendants'
 5 customers of such confusion,¹⁷ UTS is likely to succeed on its trademark infringement, unfair
 6 competition, and false advertising claims.¹⁸

7 **F. Defendants Fail To Rebut UTS's Showing Of A Likelihood Of Success On Its**
 8 **Trade Dress Claim.**

9 Defendants fail to: explain why red is supposedly a functional color; address their decision
 10 to copy UTS's entire color scheme for irritant powder projectiles, and refute that they consciously
 11 decided to choose PepperBall's colors. (*See* Tab 34.) In fact, immediately prior to acquiring the
 12 Sun/APON projectiles, the only irritant powder filled projectiles being sold by RAP4 were orange
 13 and white. (*See* Tab 133.) This undermines Defendants' unfounded claim that "[l]ive projectiles
 14 are generally made 'red' in color so the users can distinguish them from the other kinds." (*See*
 15 Doc. 45, at 24 & 45-1 ¶ 5.) Further, as noted in UTS's motion, Sun's only other customer had his
 16 live projectiles made in all sorts of color combinations, none of which included red. (*See* Doc. 27,
 17 at 22 & Tab 93.) Further, the most potent of the irritant powder filled projectiles Sun (the one
 18 with knowledge of the irritant powder filled projectile market) planned to make was entirely
 19 black. (*See* Tab 134.¹⁹) Finally, prior to ATO asserting a trade dress infringement claim,
 20 Defendants even produced another manufacturer's web page showing irritant powder filled
 21 projectiles that had clear shells. (*See* Tab 138.)

22 _____
 23 ¹⁶ *See Kendall-Jackson Winery v. E. & J. Gallo Winery*, 150 F.3d 1042, 1048 (9th Cir. 1998); *Fuddrucker's*,
 826 F.2d at 845-46.

24 ¹⁷ *See* Tabs 10, 29-33 & 54-55.

25 ¹⁸ "Proof of trademark infringement under the Lanham Act independently constitutes unfair competition
 under California law." *Philip Morris USA Inc. v. Liu*, 489 F. Supp. 2d 1119, 1123 (C.D. Cal. 2007); *see*
 26 *also Cleary v. News Corp.*, 30 F.3d 1255, 1262-63 (9th Cir. 1994); *Mallard Creek Industries, Inc. v.*
Morgan, 56 Cal.App.4th 426, 438, 65 Cal.Rptr.2d 461 (1997).

27 ¹⁹ Defendants' assertion that their projectiles need to be red is undermined by the fact that their South
 28 African supplier (Duel) makes irritant powder filled projectiles that are dark purple/dark grey to the point
 they appear black (*See* Tab 135), and other manufacturers use green and yellow for their live rounds. (*See*
 Tabs 136 & 137.)

Defendants' legally unsupported and illogical argument is that PTI/ATO/UTS's color scheme is functional because PTI was first to market and/or is the dominant manufacturer. The test for functionality, which would prohibit enforcement of a trade dress claim, is "(1) whether the design yields a utilitarian advantage, (2) whether alternative designs are available, (3) whether advertising touts the utilitarian advantages of the design, (4) and whether the particular design results from a comparatively simple or inexpensive method of manufacture." *Disc Golf Ass'n, Inc. v. Champion Discs, Inc.*, 158 F.3d 1002, 1006 (9th Cir. 1998). Defendants offer only their conjecture that red offers a utilitarian advantage as neither Sun nor Tran are in law enforcement or explain how they are familiar with law enforcement's practices. In fact, in a high stress situation, law enforcement officers are likely going to look for an external indicator (*e.g.*, magazine color) to determine what kind of round is loaded. Defendants admit as much when they offer weapons with different color stocks, barrels, and magazines to differentiate their less lethal launcher from their firearm. (*See* Tab 139.) Additionally, the fact that SWAT, FN, and RAP4's Chinese supplier all used orange and yellow on their projectiles not only shows that red offers no utilitarian advantage, but that alternative designs are available. Further, there was no advertising touting UTS's color scheme and no evidence that it is cheaper to produce a red projectile than one in another color. Accordingly, Defendants have failed to prove any element of their defense that UTS's color scheme is functional. In reality, the only advantage red and red/black projectiles offer Defendants is it makes it easier for them to sell to departments already trained to use UTS's system,²⁰ and it makes it more believable that Defendants' projectiles are from the same source as PTI's. However, neither of these reasons are a basis for finding functionality or non-infringement.

Defendants' fallback defense is to claim abandonment; however, this defense has no more merit than the frivolous abandonment claim Defendants submitted to the USPTO. In order for there to be a presumption of abandonment, the trade dress has to have not been used for three

²⁰ Which is one of the reasons some customers specify that their live projectiles be red. Another reason is that until August 2012 red identified the brand the agency wanted as there was only irritant powder filled projectile sold in the United States that was red. Further, there are many shades of red, but Defendants chose to copy not only PepperBall's color scheme but shade as well because they were trying to pass themselves off as being from the same manufacturer, if not authentic PepperBall® projectiles. (*See* Tabs 34 & 132.)

years. 15 U.S.C. § 1127; *see also Roulo v. Russ Berrie & Co., Inc.*, 886 F. 2d 931, 938 (7th Cir. 1989) (applying § 1127 to trade dress). Defendants concede the evidence only shows that the all-red projectile has not been manufactured for "nearly two years," but completely ignore: (1) Defendants also copied PTI/ATO/UTS's half-red/half-black design which UTS actively manufactures and sells; and (2) Gibson's testimony that it has not decided whether to discontinue making an all-red projectile permanently. (Defs.' Opp., at 26; *see also* Tab 140 and Tab 106 ¶ 22.)

G. Defendants Ignore UTS's Evidence Of The Fame Of The PEPPERBALL Mark In Its Response To The Trademark Dilution Claim.

UTS's discussion of the fame of the PEPPERBALL mark – as defined by statute and case law – is set forth in its motion at pages 23-24 with the evidence to support those assertions set forth throughout the motion and in some cases provided by the Defendants' response.²¹ Defendants' only response to this evidence was to pretend it does not exist. Therefore, UTS has nothing further to respond to on this claim.

The evidence in this case is abundant that Defendants in both of their e-mail blasts to all of the Defendants' customers, and in all of their various posting around the Internet, want the public to believe that ATO only obtained the name "PepperBall," but that Defendants had the goodwill (*i.e.*, access to the actual manufacturer of the PepperBall[®] projectiles prior to foreclosure on PTI). (*See* Tabs 26-28 & 36.) Although UTS has demonstrated Defendants' intent to confuse the public about *inter alia* the source, affiliation, and approval of Defendants' projectiles, and by their conduct and arguments indicated an intent to resume their unlawful conduct, UTS has demonstrated that it is entitled to a preliminary injunction on its each of its Lanham Act claims and claims brought under California's Unfair Competition and Fair Advertising laws.

²¹ Millions of dollars and over a decade promoting PepperBall mark (Tab 99, at 251:25-252:5); the mark is used on goods sold throughout the world (Tab 15, at 533:16-18); and mark is registered and incontestable (Tab 3). Defendants even admit that the mark is well recognized as PTI's PepperBall rounds "are trusted by law enforcement and military units far and wide." (Defs.' Opp., at 7.)

H. UTS Presented Evidence Of Confidentiality And Ownership Of Its Trade Secrets.

Defendants' ignore UTS's evidence of trade secret confidentiality and ownership. As previously noted, the Sun Declaration was not cited for Conrad Sun's beliefs as to what the law provides, but for Sun's admission that he felt that he was free to do as he wished with PTI's trade secrets. Given Sun's attitude, the fact that Defendants contracted for the receipt of information that was confidential provides a basis for concluding that they misappropriated trade secrets. Not only did the Defendants receive from Sun pricing that was marked confidential;²² but Defendants also contracted for the receipt of market leads. (*See* Tabs 40 & 39 (respectively).) Given this contractual right, and Sun's interest in seeing Defendants sell as many projectiles as possible, Defendants ask this Court to believe Defendants did not ask for and/or receive a list Tran testified it would take him ten years to recreate. (*See* Tab 141 at 877:1-880:19.) Finally, if the foregoing were not enough, drafts of the RAP4-Sun agreement explicitly provided for Defendants to receive "new rounds developed by *PepperBall*, [Sun] or [RAP4]." (*See* Tab 142, at 1 (emphasis added to show intent to receive rounds and associated intellectual property that did not belong to Sun).) Given the foregoing, there is more than enough circumstantial evidence²³ to show that misappropriation likely occurred and "[a]ctual or threatened misappropriation may be enjoined." *Central Valley General Hosp. v. Smith*, 75 Cal. Rptr. 3d 771, 788 (2008).

Defendants' final argument that "UTS proffers no evidence that any third party ever agreed with UTS to keep any information confidential" is frivolous as well. (Defs.' Opp., at 27.) ATO purchased all of the tangible and intangible assets of PTI. (*See* Tab 106 ¶¶ 3 & 9.) Included with those assets were contracts between PTI and all of its employees which provided that the obligation of confidentiality was transferable and survived the termination of the agreement. (*See* Tab 143 ¶ 14.) When UTS purchased all of ATO's tangible and intangible assets, it purchased the

²² Pricing is one of the types of information the Sun-RAP4 agreement made confidential. (*See* Tab 39, at 4 [RAP40118].) Therefore Defendants cannot credibly argue that when they asked for and received for pricing information from Sun, that Defendants did not know they were misappropriating trade secrets.

²³ Circumstantial evidence is sufficient to establish misappropriation. *See Brocade Communications Systems, Inc. v. A10 Networks, Inc.*, 873 F.Supp.2d 1192, 1212 (N.D. Cal. 2012).

1 right to confidentiality that ATO had obtained from PTI.

2 **IV. DEFENDANTS FAIL TO REBUT UTS'S EVIDENCE OF IRREPARABLE HARM**

3 Rather than deal with the evidence of irreparable harm presented in Plaintiff's motion,
 4 Defendants misrepresent that Plaintiff is not suffering any harm because Defendants' unlawful
 5 actions supposedly occurred for only one month in 2012. (Defs.' Opp., at 9, 15-16, 23 & 28-29.)
 6 Defendants' assertion is demonstrably false, as Plaintiff included in its motion a copy of
 7 Defendants' "clarification," posted by Defendants, that is still on the Internet as of the filing of
 8 this Reply. (*See* Tabs 27 & 144.²⁴) That "clarification" clearly infringed ATO/UTS's trademark by
 9 stating that "The Original [sic] Recipe [sic] and machinery to produce *pepperballs* was
 10 aquisitioned [sic] by RAP4 and RAP4 is now able to manufacture the original *pepperball* under
 11 the name of RAP4 Less Lethal." (*See* Tabs 27 & 28 (emphasis added to show reference to a
 12 product and its origin and not a corporate name).) Defendants' misrepresentations were also not
 13 promptly removed from Defendants' core marketing channels as Defendants left their misleading
 14 "clarification" on their official blog and Facebook pages until late September 2012 and September
 15 2013 respectively. (*See* Tabs 36 & 28 (respectively).)

16 Further, the Defendants have never corrected the misrepresentation made in their first
 17 announcement which they compounded in their second (*i.e.*, that their projectiles come from the
 18 same manufacturer and use the same machinery and recipe as PTI's respected projectiles). Long
 19 before the Indiana Court's TRO and preliminary injunction terminated, Defendants had also
 20 returned to advertising for sale irritant powder filled projectiles that are identical in color to
 21 Plaintiff's established color scheme. (*See* Tabs 64 & 145.) Despite the Indiana Court explicitly
 22 rejecting Defendants request to modify and sell the Sun projectiles, Defendants' attempt to excuse
 23 their behavior by arguing that they decided printing "PAVATM Less Lethal" on the projectile
 24 modified the trade dress.²⁵ Contrary to Defendants' claims, those projectiles have been shipped to

25 ²⁴ This undercuts Trans testimony in the Indiana action that he wanted to remove offending posts upon
 26 being notified of them. (*See* Tab 90, at 363:24-364:5.) Further, the testimony/statement under oath in Tab
 27 90 not only demonstrates that Defendants will lie under oath, but also that they know their infringement of
 28 UTS's trademark lasted far more than one month, and that Defendants did not undertake any serious effort
 to comply with the Indiana Court's TRO as the misleading page was an official post by RAP4 on RAP4's
 official blog. (*See* Tabs 36, 27, 144.)

²⁵ Although Defendants claim to have sold their projectiles under the trademarks "LESS LETHAL LIVE

1 customers and have leaked. (*See* Tab 16.²⁶) Finally, the Defendants have admitted that the only
 2 reason they took down their "clarification" was to comply with the TRO issued by the Indiana
 3 Court. Therefore, all the evidence points to the conclusion that in the absence of injunctive relief,
 4 Defendants will return to making their misrepresentations. Both federal and California law favor
 5 the imposition of injunctive relief to prevent the Defendants from resuming their smear campaign
 6 of the Plaintiff.

7 **V. DEFENDANTS DO NOT REFUTE THAT THE BALANCING OF THE EQUITIES**
 8 **WEIGHS IN UTS'S FAVOR.**

9 Although not binding on this Court, Defendants present no evidence that the Indiana
 10 Court was incorrect in finding that balancing of equities is in UTS's predecessor's favor and do
 11 not now lean in UTS's favor. The injunction was vacated purely on procedural grounds by
 12 Seventh Circuit. (*See* Tab 50.)

13 Moreover, UTS is under no obligation to avoid or undo the asset purchase, and
 14 Defendants' argument to this effect on this point is not just strange, it has zero legal or logical
 15 support. The Defendants argue without citation to precedent that UTS is not entitled to injunctive
 16 relief because it could have avoided the irreparable harm caused, and being caused by the
 17 Defendants, by not purchasing ATO's assets. (Defs.' Opp., at 29-30.) The only conclusion that can
 18 be drawn from the Defendants' argument is that an interloper has the right to extra-judicially seize
 19 and/or diminish another's assets unless the owner accedes to the interloper's demands to enter a
 20 business relationship on favorable terms to the interloper. Not only does the law not support this,
 21 but UTS is fairly confident that many Mafioso were incarcerated for engaging in this type of

22 AGENT ROUNDS and MAX PAYLOAD LESS LETHAL ROUNDS," that is not what they chose to put
 23 on the projectiles or claim a trademark on (on their website or with the USPTO). (*Compare* Defs.' Opp. at
 24 3 and Tran Decl. [Doc. 45-1] ¶¶ 8 & 11 with Tabs 61, 64, 114, 120-122 & 124 (only trademark ever
 25 claimed is for "peppershot" and this only began between September and November of 2013.) The only
 26 other trademark Defendants tried to claim is for the acronym of the active ingredient in irritant powder
 27 filled projectiles. (*See* Tabs 121 & 106 ¶ 21.) Further, prior to Defendants' April 2012 deal with Sun,
 28 Defendants did not offer more than one strength of projectile so Tran again dissembles when he claims
 "[t]he only trademarks Real Action [Paintball] has used since at least 2011 for its projectiles are LESS
 LETHAL LIVE AGENT ROUNDS and MAX PAYLOAD LIVE AGENT LESS LETHAL..." (*See* Tran
 Decl. [Doc. 45-1] ¶ 11.)

²⁶ The projectiles shown in Tab 16 were shipped by Defendants to an agent of ATO. The agent who
 ordered these projectiles ordered the projectiles without disclosing he worked for ATO.

1 illegal conduct. Any other rule would discourage investment in a brand if the owner of the brand
2 could be subject to extortion if they wanted to protect the value of the brand they built.

3 Regarding loss or injury, there was prior testimony that RAP4's projectiles leak and ATO's
4 do not. That leakage occurred with every set of projectiles ATO received from the Defendants
5 (either directly, through Defendants' counsel, or through a consumer purchase). Given that
6 Defendants have falsely represented that their projectiles: (1) come from the manufacturer of the
7 gold standard of irritant powder filled projectiles;²⁷ (2) are improved version of the projectiles
8 made for PTI;²⁸ and (3) Defendants placed markings on the projectile's shell in order to
9 differentiate their product from low quality competitors;²⁹ a consumer is likely to believe that
10 lesser manufacturers' projectiles will also leak. This will result in purchasers foregoing irritant
11 powder filled projectile systems and possibly less lethal solutions entirely.

12 **VI. INFRINGEMENT OF IP RIGHTS AND THE INDISCRIMINATE SALE OF**
13 **POTENTIALLY LETHAL PRODUCTS ARE NEVER IN THE PUBLIC**
14 **INTEREST.**

15 Defendants base their argument regarding the public interest on lawful competition, but
16 the facts above demonstrate the illegality of Defendants' conduct. Illegal conduct is never in the
17 public interest. Further, Defendants even admit that the products at issue are "primarily sold to
18 law enforcement and military personnel" and are "typically non-lethal." (*See* Defs.' Opp., at 2.)
19 Defendants' response memorandum fails to address – because Defendants cannot – Plaintiff's
20 concern for the physical safety of both the police/military and public should the Defendants'
21 product fail to work (*i.e.*, the failure of the less lethal option requires resorting to lethal force
22 assuming the police/military personnel still have time to resort to their secondary weapon). Not
23 only is the physical safety of the public at issue if police/military personnel will not use the less
24 lethal option because of performance issues, but the public is fiscally injured when the
25 government purchases equipment that will not be used. Finally, Defendants' sale of counterfeit
26 product to the public at large is likely to drag UTS into litigation when untrained civilians injure

27 ²⁷ See Tab 10, 26-28, 36, 144.

28 ²⁸ See Tab 27-28, 36, 144.

29 ²⁹ See Tab 64.

1 or kill someone through the misuses of a product UTS and its predecessors refused to sell to the
 2 public. Further, contrary to Defendants' assertion, the less lethal projectiles sold by UTS and the
 3 Defendants *are not* gelatinous paintballs, but frangible plastic spheres. (*Compare* Defs.' Opp., at
 4 34 with Tab 64.) Defendants' projectiles' inconsistent weights will lead to erratic shots even when
 5 fired by a trained professional; and as one of UTS's competitor's products has demonstrated, a
 6 frangible plastic shell – even when fired by a trained professional – can be lethal. (*See* Tabs 18, at
 7 110:20-111:11 & 12, at 84:22-85:18; & 146 respectively.)

8 **VII. THE REQUESTED INJUNCTION IS NOT OVERBROAD**

9 Given that UTS is likely to prevail on its claims that Defendants intentionally engaged in:
 10 trademark and trade dress infringement; false advertising; and other acts of unfair competition
 11 regarding a competing product, a broad injunction is appropriate. *See Century 21 Real Estate*
 12 *Corp. v. Sandlin*, 846 F.2d 1175, 1180-81 (9th Cir. 1988). That said, UTS narrowly tailored its
 13 proposed injunction to address Defendants' concern that it could not manufacturer or sell a
 14 projectile it claims to have developed (even though the projectile was not banned under the
 15 injunctive relief granted by the Indiana Court). Given Defendants' false claim that it acquired the
 16 equipment and was working with the manufacturer of PTI's projectiles, and that all of the
 17 Defendants' less lethal rounds were produced using PTI's manufacturing resources, an injunction
 18 barring the Defendants from manufacturing irritant powder filled projectiles using Plaintiff's
 19 technology or based on Plaintiff's shell or powder formula, recipe or manufacturing equipment, or
 20 selling completely spherical irritant powder filled projectiles that are either all red or half red/half
 21 black is not unreasonable. Arguably, the injunction is too narrow given Defendants' history of
 22 violating the orders entered by the Indiana Court. *See Creative Computing v. Getloaded.com LLC*,
 23 386 F. 3d 930, 937 (9th Cir. 2004) (belligerent violation of injunction *inter alia* "justified an
 24 especially aggressive prophylactic injunction"); *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d
 25 1423, 1432 (7th Cir. 1985) (prior violations of injunction allow Court greater latitude in
 26 restricting even constitutional rights and "Rule 65(d) does not require a torrent of words when
 27 more words would not produce more enlightenment about what is forbidden.").

28 Further, it is undisputed that both federal and California law allows for – and in cases such

1 as this – favors this Court enjoining Defendants' infringement and deceptive comparative
 2 advertising. The Ninth Circuit, following the Supreme Court's lead, has held "a trademark
 3 plaintiff 'entitled to relief, is entitled to effective relief; and any doubt in respect of the extent
 4 thereof must be resolved in its favor as the innocent producer and against the [defendant], which
 5 has shown by its conduct that it is not to be trusted.' [... and while the District] court was correct
 6 in noting that cessation of the unlawful conduct can moot such a dispute, [] it failed to recognize
 7 that 'the reform of the defendant must be irrefutably demonstrated and total.' 2 J. McCarthy,
 8 Trademarks and Unfair Competition § 30:6, at 471 (2d ed. 1984)." *Polo Fashions, Inc. v. Dick*
 9 *Bruhn, Inc.*, 793 F.2d 1132, 1135 (9th Cir. 1986).

10 Like the defendant in *Polo Fashions*, Defendants willfully violated and continue to violate
 11 Plaintiffs' trademarks and refused to cease the infringement even after being so ordered by the
 12 Court. *See id.* Further, Defendants have had two years to confirm that APON did not manufacture
 13 projectiles for PTI and yet insist on continuing to misrepresent the nature of APON's projectiles.
 14 Further, UTS has demonstrated that Defendants' interest in comparative advertising is not to
 15 maintain the status quo, but to engage in initial interest confusion and elevated search engine
 16 rankings. Accordingly, this Court can and should enjoin Defendants' use of UTS's trademark.³⁰
 17 The Ninth Circuit in *Polo Fashions* held it an abuse of discretion not to impose an injunction
 18 under these circumstances. *See id.*, at 1136.

19 A trade secret injunction (a public document) is not required to set forth the trade secret.
 20 Otherwise, the injunction would immediately become unenforceable because the trade secret
 21 would not be a trade secret anymore. That said, the proposed injunction is narrowly tailored so
 22 that Tran's professed inability to understand that he and RAP4 are banned from selling complete
 23 spherical irritant powder filled projectiles and from manufacturing any completely spherical
 24 projectiles filled with irritant causing powder that are either: (1) all-red or half-red/half-black; or
 25 (2) manufactured using Plaintiff's technology or based on Plaintiff's shell or powder formula,

26
 27 ³⁰ Defendants' claim that the consuming public needs to be told that a .68 caliber projectile is compatible
 28 with a .68 caliber launcher is unpersuasive because this fact is obvious. This is why Defendants cannot
 point to a single one of their product pages for launchers or spherical projectiles on which Defendants
 provided such compatibility information.

1 recipe, or manufacturing equipment is irrelevant. As for the injunction barring Defendants from
2 "using or disseminating any information received from Conrad Sun regarding PepperBall
3 Technologies, Inc.'s operations that are not public knowledge," not only were examples of the
4 information covered by this paragraph given, but Tran's declaration essentially asserts that he has
5 no idea what information was received from Conrad Sun. As for information Defendants received
6 directly from Sun, Tran's assertion is ludicrous; but for information received from third parties,
7 Defendants could always ask where the third party obtained the information about PTI.

8 Finally, the portion of the proposed injunction dealing with false statements is not vague.
9 Any false statements about UTS, etc. are not allowed. If the Defendants feel compelled to issue
10 statements about UTS, they can also confirm the accuracy of the statement with UTS. Defendants
11 are not being sued for negligent misrepresentations, but because they intentionally sought to
12 mislead the public about ATO and by extension UTS, and the availability of authentic
13 PepperBall® projectiles from ATO and UTS. In fact, the only reason Defendants may not have
14 known that all of the representations in Defendants' announcements were false is because they
15 were willfully ignorant of the facts as a phone call to PepperBall Technologies' phone number
16 would have revealed that PepperBall Technologies was alive and well, with the same suppliers
17 and projectiles, but with new ownership and management. Given Defendants' history, the Plaintiff
18 has described in reasonable detail the acts restrained and this is all that is required under Fed. R.
19 Civ. P. 65(d)(2)(C). *See Medtronic, Inc. v. Benda*, 689 F.2d 645, 649 ("All that is required under
20 Fed.R.Civ.P. 65(d) is for the language of the injunction to be as specific as possible under the
21 totality of the circumstances, such that a reasonable person could understand what conduct is
22 proscribed.").

23 **VIII. NO MORE THAN A \$10,000 BOND IS WARRANTED.**

24 Most of Defendants' claimed \$5.284MM bond is based on estimated attorney's fees
25 through trial of \$3.75 MM. This is based on median legal fees for a trademark infringement case
26 "of this magnitude." (Defs.' Opp., at 37.) No evidence as to why that figure applies to this case
27 has been presented, and UTS' counsel doubts that Defendants' counsel will be able "to churn the
28 file" that much. Further, attorney's fees are only recoverable where there has been a

1 demonstration of bad faith by the party that obtained the injunction or in "exceptional" cases
2 involving infringement. *See TrafficSchool.com v. Edriver Inc.*, 653 F.3d 820, 831-32 (9th Cir.
3 2011); Cal Civ. Code § 3426.4.

4 Defendants get to their desired bond amount of \$5.284MM only by adding another 20% to
5 the sum of Defendants' supposed lost profits and attorney's fees. Defendants provide no evidence
6 supporting that figure or any explanation as to how the attorney's fees have anything to do with
7 the amount necessary to rebuild goodwill – or that Defendants have repeat customers for their
8 counterfeit irritant powder filled projectiles. Defendants also provide no evidence beyond the
9 declaration of Tran (whose credibility has been shown lacking) to establish any of Defendants'
10 damages. Not only does Tran's declaration not provide this Court with any information regarding
11 how Tran determined Defendants' supposed damages, but Tran has changed his testimony
12 regarding the amount of harm supposedly caused to Defendants by the Indiana Court's TRO.
13 (*Compare* Tran Decl. ¶ 21 [Doc. 45-1] with Tab 100.)

14 Defendants do not provide this Court with tax returns, sales reports, Quickbooks reports,
15 or any records regarding the number of employees (misleading or otherwise) to substantiate their
16 claimed harm. Defendants also presented zero evidence to support their claim that irritant powder
17 filled projectiles drive other sales and the evidence from the period between the Defendants'
18 initial announcement and the entry of the TRO shows that Defendants' assertion is meritless.
19 (*Compare* Tran Decl. ¶ 21 [Doc. 45-1] with Tab 147.)

20 Given the Defendants provide this Court with even less evidence than they provided the
21 Indiana Court, there is no reason this Court should set a higher bond. This is especially true given
22 Defendants' reinforcement of the Indiana Court's finding that if Defendants are suffering
23 substantial damages, those damages are "of a self-imposed nature." (*See* Tab 1, at 16 n. 2; and
24 *compare* proposed injunction which only bars the manufacturing of "completely spherical
25 projectiles filled with irritant causing powder that are either: (1) all-red or half-red/half-black; or
26 (2) manufactured using Plaintiff's technology or based on Plaintiff's shell or powder formula,
27 recipe, or manufacturing equipment" with Tran's Decl. ¶ 17 (claiming that the proposed
28

1 injunction would prevent Defendants from "manufacturing projectiles.").³¹)

2 Finally, Defendants do not respond to the argument that the Indiana Court did not increase
3 bond and that the illegality of Defendants' actions makes a bond beyond \$10k excessive. The
4 Defendants' requested bond amount is nothing more than a transparent attempt to prevent UTS
5 from getting the injunctive relief to which it is entitled.

6 CONCLUSION

7 UTS has presented this Court with facts demonstrating that Defendants have engaged in
8 willful violations of the Lanham Act and California's Unfair Competition Law, False Advertising
9 Law, and Uniform Trade Secrets Act. Each of these laws favor injunctive relief because the
10 nature of the harm is irreparable due in no small part to the inability to quantify the damage
11 resulting from lost sales and goodwill. Some of the foregoing laws favor broad injunctive relief
12 given that the products at issue are directly competitive. In order to obtain injunctive relief, UTS
13 must show that it is likely to prevail on the merits or that there is a serious question going to the
14 merits and the other factors weigh heavily in UTS's favor. UTS is entitled to an injunction under
15 either standard as not only have the first two factors been met, but also the equities and the public
16 interest tilt heavily in UTS's favor.

17 Defendants' Opposition ignores the facts and the law presented by UTS – including the
18 overwhelming evidence of intent to mislead and intentional copying of Plaintiff's projectiles;
19 misrepresents the facts (even immaterial facts); cites to inapplicable precedent (where there is any
20 citation to precedent); fails to explain why this Court should reinvent the wheel and ignore
21 everything that occurred in the Indiana action; and claims a need for additional discovery without
22 providing this Court with the proposed discovery, an explanation of why it is necessary prior to
23 deciding the instant motion, and why it was not conducted during the Indiana litigation. In reality,
24 the Defendants do not need discovery and are merely using the need for discovery to protract this

25 _____
26 ³¹ Defendants claim that manufacturing has nothing to do with their infringement of UTS's trademark.
27 (Defs.' Opp., at 33.) If UTS were only pursuing a trademark infringement action, Defendant might be
28 right, but UTS is pursuing Defendants for false advertising and misappropriation of trade secrets as well.
Defendants claimed to have acquired PTI's equipment and recipes. Therefore, enjoining Defendants from
manufacturing or disposing of their manufacturing equipment for irritant powder filled projectiles is not
overbroad.

1 litigation and delay the injunctive relief to which UTS is entitled.

2 Dated: October 30, 2014

3
4 By: /s/ Michael Blumenthal
5 Michael L. Blumenthal
6 Attorneys for Plaintiff
7 UNITED TACTICAL SYSTEMS, LLC
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